ONE HUNDRED NINTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5074
FACSIMILE (202) 225–3974
MINORITY (202) 225–5051
TTY (202) 225–6852

http://reform.house.gov

SUBCOMMITTEE ON FEDERALISM AND THE CENSUS

Congressman Michael R. Turner, Chairman

OVERSIGHT HEARING
STATEMENT BY MICHAEL R. TURNER, CHAIRMAN

Hearing topic: *"The '70s Look: Is the Decades-Old Community Development Block Grant Formula Ready for an Extreme Makeover?"*

Tuesday, April 26, 2005
10:00 a.m.
Room 2154, Rayburn House Office Building

OPENING STATEMENT

Welcome to the Subcommittee's oversight hearing entitled, "The '70s Look: Is the Decades-Old Community Development Block Grant Formula Ready for an Extreme Makeover?"

In March, this Subcommittee held a hearing reviewing the Bush Administration's "Strengthening America's Communities" initiative. During that hearing, we learned that HUD had undertaken certain in-house initiatives to improve the administration of the program. It is one of those initiatives that brings us here today – a review of the CDBG formula and the development of four possible grant formula reforms. This is the first in a series of oversight hearings dedicated to review of the Community Development Block Grant program at the Department of Housing and Urban Development.

The Community Development Block Grant program, or CDBG, is one of the largest federal direct block grant programs in existence. In FY 2005, Congress appropriated $4.71 billion for the CDBG program, including $4.15 billion for CDBG formula grants alone. State and local governments use CDBG grant monies to fund various housing, community development, neighborhood revitalization, economic development, and public service provision projects. Such projects must address at least one of three objectives: (1) to principally benefit low- and moderate-income individuals; (2) eliminate or prevent blight; or (3) remedy urgent threats to the health or safety of the community when no other financial resources are available.

For over thirty years, the CDBG Program has been a critical tool in the arsenal of cities to help create livable communities for individuals and families. Without question, the program provides vital funds for addressing poverty as well as community development needs, from eradicating blight to providing potable water and building sewers. And while CDBG enables states and local governments to accomplish many of the objectives outlined in the original authorization, the program exhibits several problems that require remedy.

The formula through which the bulk of CDBG funds are distributed to entitlement communities and non-entitlement communities is quite complex. The 1974 legislation creating the CDBG program identified poverty, blight, deteriorated housing, physical and economic distress, decline, living environment suitability, and isolation of income groups as some of the factors to be considered in determining community development need. The original formula specified in the CDBG statute only considered three variables to assess and target these needs – population, poverty, and overcrowding. However, Congress also intended for the CDBG program to address housing, economic development, neighborhood revitalization, and other community development activities not exclusively associated with poverty. An analysis of the formula shortly after 1974 showed that while the CDBG formula targeted poverty populations fairly well, it failed to adequately address older and declining communities. Accordingly, in 1977, Congress amended the law by creating a second, parallel formula. The original formula became known as Formula A. The new formula became known as Formula B. Formula B was designed to target older and declining communities by using the new variables of growth lag and pre-1940 housing. Jurisdictions receive the greater sum of the two formula calculations.

The last modification to the grant formula came in 1981. Congress amended the formula by adding the "70/30 split," requiring that funds be split 70 percent to 30 percent between entitlement and non-entitlement areas respectively

Since 1978, the factors used in these calculations have remained constant while the demographic composition of the nation has changed dramatically. In particular, the number of entitlement communities has grown drastically. In FY2004, there were more than 1,100 designated entitlement communities – more than 250 new entitlement communities were certified since 1993 alone as compared to only 128 new entitlement community designations between 1982 and 1993. And while the number of entitlement communities sharing the 70 percent portion of CDBG funds continues to grow, the overall funding of the program has not kept pace. Thus, a larger portion of the population is sharing a relatively static portion of CDBG funds, resulting in smaller per capita grants per jurisdiction. At the same time, the number of non-entitlement communities grows smaller, effectively increasing their share of the 30 percent portion of CDBG.

Additional questions of fundamental fairness have arisen in recent years. First, there are numerous instances of "richer" communities receiving higher per capita awards than "poorer" communities. Second, similarly situated communities often get disparate per capita awards.

The purpose of this hearing is to consider two basic questions regarding the structure of the allocation formula. First, is the current formula, last modified in 1981, still applicable and effective today? Second, if the answer to the first question is "no," what factors should Congress consider and what changes to the formula would be appropriate?

To help us answer these questions, we have the Honorable Roy Bernardi, the current Deputy Secretary of the Department of Housing and Urban Development and former Assistant Secretary of Community Planning and Development. On February 21, 2005, HUD published a document entitled *CDBG Formula Targeting to Community Development Need*, the result of a study on the declining effectiveness of the current grant formula in targeting need. The study demonstrates that the current formula continues to target need – the top ten percent of communities with the greatest community development need receive four times as much as the lowest ten percent of communities. Further, the per capita grants awarded to the most needy of communities have decreased while the per capita grants awarded to the least needy of communities have increased. To address these deficiencies, the document details four alternative formulas. The subcommittee looks forward to hearing more details from Mr. Bernardi on this study.

Following Mr. Bernardi, we will hear from Mr. Paul Posner, Director of Federal Budget & Intergovernmental Relations at the Government Accountability Office. Joining Mr. Posner from GAO is Mr. Jerry C. Fastrup, Assistant Director of Applied Research and Methods. Rounding out our second panel of witnesses, we are pleased to welcome Mr. Saul Ramirez, Jr., Executive Director of National Association of Housing and Redevelopment Officials. Mr. Ramirez served as the Deputy Secretary of HUD during the Clinton Administration as well as the Assistant Secretary of Community Planning and Development from 1997 to 1998.

I look forward to the expert testimony our distinguished panel of leaders will provide today. Thank you all for your time today and welcome.

#####